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C O N F I D E N T I A L SECTION 01 OF 05 BAGHDAD 000882

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TAGS: [ECON](#) [ENRG](#) [EPET](#) [KCOR](#) [EIND](#) [IZ](#)
SUBJECT: PRT TIKRIT: BAYJI OIL REFINERY: WHERE ARE THE
TANKERS?

REF: A. A. BAGHDAD 682
[1](#)B. B. 06 BAGHDAD 4427
[1](#)C. C. BAGHDAD 539
[1](#)D. D. BAGHDAD 775
[1](#)E. E. BAGHDAD 681
[1](#)F. F. BAGHDAD 677
[1](#)G. G. BAGHDAD 462

Classified By: Stephen Buckler, PRT Team Leader, for reasons 1.5 (b) and (d).

[1](#)1. (U) This is a PRT Tikrit, Salah ad Din cable.

[1](#)2. (C) SUMMARY. A new breakdown in the distribution system of refined fuel from the Bayji oil refinery is exacerbating already dire shortages in many areas of north-central Iraq. This is occurring several weeks after the commencement of Operation "Honest Hands", the military "invasion" of the Bayji oil refinery by the 4th IA. The initial objective of the operation - occupation of the refinery facility by the 12th Strategic Infrastructure Battalion (SIB) and a reduction of onsite fuel smuggling) was largely accomplished. However, the principal goal of increasing fuel supplies for the general population has not been attained, and in fact may be worsening. Assigned fuel tankers, especially from Mosul and Kurdistan, are failing to report in sufficient numbers to the refinery. There are many possible causes of the distribution system breakdown; however, according to sources at the refinery, the primary cause appears to be financial. Increased monitoring of the refinery fuel pumps has limited opportunities to overfill tankers, thus possibly eliminating the incentive) surplus fuel to sell for higher margins on the black market - for many gas station and trucking company owners to send their tankers through the gauntlet of Iraq's highways to Bayji (especially from distant locations). Solving Bayji's fuel distribution problem in a new (largely) corruption free environment will require a comprehensive approach by the GOI which addresses the security) but more importantly - the economic issues that may underlie the situation. END SUMMARY

Low Allocations, Few Tankers

[1](#)3. (C) Responsible for producing most of the refined fuel consumed across a broad swath of Iraq - from Diyala to Dohuk) the Bayji oil refinery has long suffered from rampant fuel smuggling, technical problems, and interruptions in crude oil and energy supplies (reftel A). Operation Fair Play, the "invasion" of the facility directed by the 4th IA) though actually carried out by the SIBs promised to eliminate local fuel smuggling by increasing overall security as well as closely monitoring activities at the distribution pumps. Although onsite fuel smuggling appeared to be substantially reduced, the 4th IA deliberately limited the number of tankers fueled per day from an average of over 200 to 143)

likely more than necessary - slashing provincial allocations.

14. (C) The Ministry of Oil's more generous allotments - which nearly double the amount of fuel distributed to the provinces) were reinstated on February 28. However, simultaneously, the number of tankers turning up at the distribution terminal each day to pick up fuel for delivery to the provinces began to dwindle on February 24, until by March 2 several provinces, such as Kirkuk and Mosul, received no refined fuel at all from Bayji (their primary source). Multiple factors play a role: the abysmal highway security situation, mismanagement by the Distribution Company (and their agents in the field) in organizing deliveries, etc. Yet economic factors interrelated with security issues may be the primary cause of the quagmire. Long considered to be customary "profit", the surplus fuel by and large supplied to tanker drivers - typically 3000-5000 liters) would often be sold for a tidy sum on the black market by their patrons. As fuel smuggling at the refinery distribution pumps became a more difficult proposition in February, the enthusiasm of many to distribute fuel from the refinery appears to have waned. According to one tanker driver interviewed at the refinery, extortion at IA checkpoints on the highway to Mosul is rampant, making the dispatch of a tanker to Bayji an expensive and dangerous proposition, especially for distant locations, such as Mosul, Kirkuk, and Kurdistan. This observation is often made at Bayji by drivers, refinery officials, and even members of the IA themselves (reftels B, F). (COMMENT: The situation at the Bayji oil refinery is illustrative of the complexities and challenges of stimulating economic growth in Salah ad Din, where it is difficult to divorce security and economic issues. END COMMENT.)

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An Overly Aggressive Plan

15. (C) After assuming responsibility for refinery security and distribution on February 19, the 4th IA immediately reduced the number of tankers filled from the usual quota of 200-300 to 143 per day in order to eliminate onsite fuel theft and ensure efficiency. Operations were streamlined; tankers were admitted to the refinery in a more orderly manner and were closely monitored at the distribution pumps to prevent corruption. However, the sharp fall in the total amount distributed quickly brought charges of sectarianism from SaD, a predominantly Sunni Arab province. During a March 5 meeting, the Governor and Deputy Governor of Salah ad Din province, Hamad Hamoud al Shakti and General Abdulla Hussein Muhammed, accused LTG Aziz and his deputy, BG Nabil, of unfairly allotting a disproportionate amount of fuel originally destined for Sunni provinces to Kurdistan. Although Abdulla provided IPAQ documentation which allegedly proved that an unfair amount of fuel was being directed north, closer examination indicates that the recent decline in fuel distribution in SaD) which was not as drastic as in other provinces - is probably not the result of a deliberate attempt to route additional fuel supplies north, but rather an unavoidable consequence of the reduction of the number of tankers fueled. When compared to the Ministry of Oil,s (MoO) allocation plans from November and February (reftel B), the 4th IA,s distribution plan would have allotted fuel to the provinces in a very similar proportion:

--November 19 MoO gasoline daily allocations, provincial shares:

----Kurdistan, 39%
----Mosul, 23%
----Kirkuk, 7%
----Anbar, 14%
----SaD, 17%

--February 7 MoO gasoline daily allocations, provincial shares:

----Kurdistan, 35%
----Mosul, 20%
----Kirkuk, 8%
----Anbar, 18%
----SaD, 18%

--4th IA proposed March gasoline daily allocations, provincial shares:

----Kurdistan, 31%
----Mosul, 20%
----Kirkuk, 14%
----Anbar, 18%
----SaD, 17%

¶6. (C) Recognizing who has ultimate power on the ground in Bayji, Governor Hamad told IPAQ on March 5 that he met with LTG Aziz in Erbil in order to come to "an understanding" regarding the number of tankers that Aziz would allow to be fueled daily at the refinery. While the details of this "understanding" were not forthcoming, Hamad stated that Aziz agreed to accept the MoO provincial allocations in place of his own. (NOTE: During a January 29 meeting in Baghdad, Prime Minister Maliki tasked LTG Aziz and the 4th IA with securing the refinery and fuel distribution process at Bayji.

Although the facility is ostensibly controlled by the MoO, this mandate effectively allows Aziz to greatly influence events in Bayji now and in the future, possibly explaining the need for the Governor to consult with him. END NOTE.) According to memoranda provided by Abdulla, the MoO plan supplanted the 4th IA plan on February 28, considerably raising the total projected amount of fuel to be distributed (even considering the lower production totals due to the heavy fuel oil glut at the refinery, reftel C):

--4th IA proposed daily total allocations from March 1) 31.

----Gasoline, 2450 cubic meters
----Kerosene, 1550 cubic meters
----Diesel, 2350 cubic meters

--MoO daily total allocations from February 28) March 4.

----Gasoline, 4195 cubic meters
----Kerosene, 2230 cubic meters
----Diesel, 4194 cubic meters

Security a Convenient Excuse?

¶7. (C) Representing a significant departure from their

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previous posture, the managers of the trucking companies and gas stations throughout Nineveh and Kirkuk now claim to be prevented from sending tankers because of the poor security situation. (NOTE: Security on Iraqi highways is an omnipresent concern; fuel tankers have long been the target of intimidation campaigns by AIF and AQIZ (reftel 7), as well as frequent victims of extortion at ISF checkpoints. However, transport of refined fuel has been disrupted far less than HFO distribution. While inconsistent HFO distribution shuts down the refinery due to a lack of storage capacity for the HFO, refined fuel deliveries have usually occurred - albeit at a reduced level - in the past. END NOTE.) During interviews conducted at the refinery on March 6, members of the 12th SIB and various tanker drivers voiced skepticism with this assertion. The gradual drop off in the number of tankers sent to Bayji throughout the month of February coincided with the reduction of opportunities to receive and later sell the extra fuel (not stipulated on their manifests) on the black market for fuel.

¶8. (C) COL Yessin, the commander of the 12th SIB, flatly stated to IPAQ that, "these criminals use security as an excuse to cover their corruption. They will not return to

the refinery until they are able to steal again there", intimating that they would find more creative methods of obtaining fuel to sell on the black market. Yessin also highlighted the fact that the SIBs have been ready throughout the operation to provide security by escorting tankers; however, their services have not been desired nor requested by the trucking companies. (NOTE: There may soon be enticing opportunities for black market "entrepreneurs" to siphon the pipelines to acquire additional product to sell. Although it appears that the previously proposed redeployment of the 4) 2/4 IA from Salah ad Din to support the Baghdad surge at the end of April after all may after all not occur; the prospect of vast stretches of the crude and refined fuel pipelines being left unguarded has probably not been lost on tanker owners throughout north-central Iraq, especially in Kirkuk and Mosul. END NOTE.)

A Business Decision

19. (C) Driving a fuel tanker in Iraq in 2007 is risky business. This is especially true in the wild-west atmosphere of north-central Iraq, where truck drivers brave highways infested with criminal organizations that are run by area sheikhs that could rival the Godfather, the AIF, and IA checkpoint shake-downs. The incentive necessary to make the perilous journey was a "profit" paid in the form of filling the tanker in excess of the legal, manifested amount. This inducement may outweigh other considerations; for example, the standard payment for transporting a full tanker 290 kilometers from Bayji to Mosul is approximately 400 USD. (NOTE: This estimate is calculated using the standard transportation rate paid by the MoO, which is metric tons) about 1,273 liters) times the number of kilometers) 270 from Mosul to Bayji and back, times 60 ID. END NOTE.) By contrast, according to black market fuel prices in Nineveh, 3000 liters of fuel sold on the black market would gross approximately 3000-3500 USD. (NOTE: According to data obtained from atmospheric reports on February 11, a liter of benzene sold on the black market in Nineveh cost 1.21 USD. END NOTE.) (COMMENT: Of course, it is likely that many tanker owners sell their entire supply on the black market, not merely an 11th of it. This example is being used as a point of comparison. Considering that the total revenue reaped from legal transport and sale of 30,000 liters of benzene at the government-set price is approximately a third (roughly 1200 USD compared to 3500 USD) of the income earned from the expeditious sale of 3000 at the nearest street corner, it is not difficult) from an economic perspective - to identify the priority for most tanker owners. The profit lost by "sitting out" ten distribution days can probably be recouped by one busy day at the black market. END COMMENT.)

Extent of Problem Varied

10. (C) The breakdown of the distribution process is not uniform. Deliveries of refined fuel to Mosul, Kirkuk, and Kurdistan virtually ceased by March 2 due to the lack of transport, while SaD and Anbar provinces were affected to a lesser extent. This trend has continued; according to CF reporting on March 10, Mosul and Kurdistan are being starved of refined fuel. (NOTE: While the highways in Kurdistan themselves are generally considered safe, tankers from Bayji have to pass through a significant stretch of hostile

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territory) the provinces of SaD, At Tamim, and Nineveh - before making it to the safer areas. END NOTE.) The following data represents the percentage of the tankers that were allotted for each province according to the 4 IA's reduced schedule, over a period of three distribution cycles (March 4) 10). For example, SaD was apportioned 25 tankers

per day (each province has two specified days per week). According to the data, an average of 18 tankers have reported per day from SaD, thus the province is receiving approximately 73% of its allocation. Mosul is receiving less than 2% of its allotment.

Anbar

--Gasoline, 56%
--Diesel, 50%
--Kerosene, 113%

SaD

--Gasoline, 73%
--Diesel, 56%
--Kerosene, 103%

Kirkuk

--Gasoline, 128%
--Diesel, 73%
--Kerosene, 134%

Sulaymaniya

--Gasoline, 80%
--Diesel, 25%
--Kerosene, 75%

Dahuk

--Gasoline, 59%
--Diesel, 16%
--Kerosene, 221%

Irbil

--Gasoline, 53%
--Diesel, 18%
--Kerosene, 94%

Mosul

--Gasoline, 2%
--Diesel, 1%
--Kerosene, 0%

Where the Rubber Hits the Road

¶11. (C) During a February 19 meeting at the refinery, BG Nabil announced a general distribution strategy which assigned the principal responsibility for organizing and securing provincial fuel deliveries to the (reftel E) governors. Yet in practice the distribution process is controlled by the Oil Products Distribution Company (OPDC), represented in Bayji by Chief of Distribution Taha Mahmoud and his network of "agents" throughout the provinces. Responsible for organizing tanker convoys on the two days assigned to their province per week, the agents are the critical link in the supply chain. The role of the governors may vary by province, but it is probably manifested more by indirect influence rather than official responsibility. (NOTE: According to multiple contacts, Governor Hamad may exert a considerable amount of influence at the Bayji refinery and likely knows and/or participates in various fuel smuggling schemes in SaD, reftel G. During multiple interviews conducted in February and March, however, he showed little inclination to take an active role in helping to organize legal fuel distribution. END NOTE.)

¶12. (C) Both Hamad and Abdulla likely exercise significant influence behind the scenes (both own fuel stations and are believed to engage in fuel smuggling); however, distribution agent Amar Mudher is technically responsible for organizing deliveries of fuel from the refinery to SaD province. It is also possible that this has resulted in confusion in the provinces. On March 5, Mudher alluded to the difficulties faced by provincial agents organizing fuel deliveries, such as sporadic telephonic communications (cellular telephone coverage has been sporadic recently in SaD) and frequently changing directives emanating from the OPDC.

Comment

¶13. (C) The recent breakdown in the distribution of refined fuel is exacerbating a crisis throughout north-central Iraq, particularly in Mosul and Kurdistan (although Kurdistan may

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possess other remedies, such as increasing imports). Clear-cut data showing the precise difference in the amount of fuel which was delivered north compared to today is not available. However, it is clear that less fuel is reaching certain of these provinces than before Operation Honest Hands. There are many factors which seem to lead to this conclusion: the number of tankers arriving from Mosul is a fraction of pre-operation totals, black market fuel prices continue to rise, and anecdotal evidence. (NOTE: The 2007 import budget by the GOI is planned to import less fuel than ¶2006. The KRG must pay for all the imported fuel they desire and it will be imported by SOMO. A revolving fund made up of refined product and HFO sales is to be used for imports into Iraq during 2007. SOMO received a \$300M loan from the MoF at the start of the year and this has to be paid back. There is no attempt to supplement production to meet demand by the GOI. It is going to be up to the private importers. END NOTE.) In addition, reporting from the ground illustrates that the latest crisis may be unparalleled in its severity (reftel D).

¶14. (C) Production disruptions in Bayji leading to general shortages of refined fuel in northern Iraq are commonplace; moreover, the facility has long suffered from sporadic crude oil supply, intermittent power failures, and an security issues of transporting HFO to Syria recently. However, unlike power outages, the HFO glut, and other technical problems, the root causes of the present distribution failure at Bayji are economic and security related. For many Iraqis, the costs of sending a truck from Mosul or Erbil to Bayji and back) considering IA extortion and the constant threat of terrorist attack) currently outweigh the benefits. A massive self-correction of the market for refined fuels throughout Iraq is occurring, forcing most Iraqis to operate (whether by selling fuel or buying it) in the black market (some even refer to it as a "gray market"); a market whose existence is guaranteed by the artificially low government fuel prices and the constant disruptions of production in Bayji.

¶15. (C) The previous distribution system, with all of the corruption attached to it, served an essential purpose; it met the needs of the black market, which in turn met the needs of the population) albeit unfairly - and provided incentives for "entrepreneurs" to capitalize on growing demand. Operation Honest Hand disrupted many of the market forces previously at play. A key facet of the ultimate solution) though difficult politically - is correcting the imbalances that presently exist by raising government fuel prices to a level closer to their natural equilibrium, thereby providing much greater incentives for the legal transporting and sale of refined fuel. In addition, higher payment by the MoO for fuel deliveries would likely help. Other short-term initiatives by the GOI which would likely improve the distribution situation include an effective crack down on black marketers of fuel (raising the disincentive to engage in the practice), reduction of IA checkpoint extortion (which will probably require greater CF efforts, given the IA and SIBs track record), mandatory tanker convoys, improved highway security, and improved management of the Distribution Company,s fuel distribution network. END COMMENT.

¶16. (U) PRT Tikrit thanks the soldiers of the 1st Battalion, 505th Paratroop Regiment, 82nd Airborne Division for their invaluable contributions and support that make this reporting possible.

¶17. (U) For additional reporting from PRT Tikrit, Salah ad
Din, please see our SIPRNET reporting blog:
<http://www.intelink.sgov.gov/wiki/Tikrit>.
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